



FOCUS ON THE FISC

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INSIDE THIS ISSUE

1. 12/14/2017 REC Forecast Revisions
4. FY 19 Executive Budget Overview
5. FY 19 Executive Budget Departmental Overviews
13. Civil Service Classified Pay Plan Redesign

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FROM THE DESK OF THE FISCAL OFFICER

Your Legislative Fiscal Office is pleased to present the latest edition of Focus on the Fisc. We hope you enjoy it and encourage feedback.

This issue begins with a summary of revenue forecast revisions made at the last Revenue Estimating Conference meeting in December 2017, followed by a note on the FY 19 Fiscal Cliff/Budget Gap. Next, the LFO Staff provide an overview of the FY 19 Executive Budget followed by brief summaries of issues at the departmental and agency levels. The Executive Budget overview begins with General Government, followed by Health and Hospitals, and ends with Education. Rounding out this issue is a brief article outlining the revised classified pay plan undertaken by the Department of Civil Service.

-John D. Carpenter

REVENUE

Revenue Forecast Revisions – REC Meeting, 12/14/2017

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The Revenue Estimating Conference (REC) met on 12/14/2017 and increased overall state tax revenue forecasts for the current fiscal year (FY 18) and the ensuing fiscal year (FY 19) relative to the 5/16/2017 forecast. The result of the latest meeting was to increase the state general fund (SGF) revenue forecast by \$152.9 M for FY 18 and \$233.5 M for FY 19. The fall in forecast from FY 18 to FY 19 largely reflects the expiration of a temporary 50% of sales tax rate and base broadening at the end of FY 18. Table 1 on the following page displays the major forecast revisions for FY 18 and FY 19 compared to the previous baseline forecast.

The total tax revenue upgrades are largely the effect of expected stronger collections of general sales tax, corporate taxes, and severance taxes. These increases are partially offset by downgrades to the personal income tax, royalty receipts, vehicle sales tax, motor fuels tax, and premium taxes. Various other receipts make positive and negative contributions to the revisions in different years, as well. Modest net decreases in dedications enhance the extent of the net upgrades from the perspective of the general fund, with the sum of all revisions reflected in the general fund bottom line revisions.

Oil price projections are essentially unchanged for the current fiscal year and only modestly upgraded for the next year. The oil price forecast for FY 18 is now \$51.78/bbl (only 64¢ higher), and \$54.31/bbl for FY 19 (\$3.19 higher). While reported market prices of oil have exceeded \$60/bbl, the price implied by severance tax receipts has averaged some \$6/bbl - \$8/bbl less than market prices for nearly two years. Natural gas price projections are largely unchanged, continuing to hover in the \$3.00 - \$3.20/mcf range. Mineral price and production adjustments are reflected in higher severance tax forecasts for both FY 18 and FY 19, although continuing weakness in royalty production has prevented improvement in that component of mineral receipts. Despite severance tax performance, the state's energy sector is still weak and exerting a drag on the overall economy.

The personal income tax forecast was reduced modestly, the result of the state's employment situation which, while improving in the aggregate, is not broad-based and continues to over-rely on relatively low-

TABLE 1

MAJOR REC REVENUE FORECAST REVISIONS
December 14, 2017 REC

Revenue Source (millions \$)	FY18			FY19			FY19 - FY18 as of 12/14/17
	As of 5/16/17	As of 12/14/17	Forecast Change	As of 5/16/17	As of 12/14/17	Forecast Change	
Personal Income	\$3,016.5	\$2,993.7	-\$22.8	\$3,076.8	\$3,038.3	-\$38.5	\$44.6
Sales, General	\$3,800.8	\$3,934.7	\$133.9	\$2,922.1	\$3,104.8	\$182.7	-\$829.9
Corporate	\$338.5	\$350.0	\$11.5	\$201.3	\$300.0	\$98.7	-\$50.0
Severance	\$371.4	\$397.7	\$26.3	\$348.7	\$399.5	\$50.8	\$1.8
Royalty	\$155.1	\$144.0	-\$11.1	\$142.6	\$144.0	\$1.4	\$0.0
Gaming	\$865.0	\$873.0	\$8.0	\$865.0	\$865.0	\$0.0	-\$8.0
Sales, Vehicle	\$535.5	\$500.9	-\$34.6	\$421.9	\$427.2	\$5.3	-\$73.7
Motor Fuels	\$640.4	\$637.0	-\$3.4	\$658.0	\$649.9	-\$8.1	\$12.9
Premium Tax	\$936.3	\$952.1	\$15.8	\$948.4	\$913.4	-\$35.0	-\$38.7
Earnings	\$1.0	\$1.0	\$0.0	\$1.0	\$1.0	\$0.0	\$0.0
All Other	\$1,320.4	\$1,326.1	\$5.7	\$1,323.4	\$1,269.1	-\$54.3	-\$57.0
Total Tax	\$11,980.9	\$12,110.2	\$129.3	\$10,909.2	\$11,112.2	\$203.0	-\$998.0
Less Dedications	\$2,538.9	\$2,515.3	-\$23.6	\$2,541.4	\$2,510.9	-\$30.5	-\$4.4
General Fund	\$9,442.0	\$9,594.9	\$152.9	\$8,367.8	\$8,601.3	\$233.5	-\$993.6
Oil Price per bbl	\$51.14	\$51.78	\$0.64	\$51.12	\$54.31	\$3.19	\$2.53

wage sectors for much of its growth out of the recent trough of mid-2016.

Corporate tax upgrades reflect the improved performance of FY 17, which are likely the result of the extension of the franchise tax to various forms of pass-through business entities, as well as an overly cautious baseline forecast from May. While the corporate receipts forecast has been upgraded, it is still a cautious forecast, and assumes some material backlog of tax credits will be redeemed once the temporary credit reductions of 2015 expire.

Regardless of the composition of employment growth since mid-2017, growth has been positive and is the root of the upgrades to the general sales tax forecasts. This underlying base improvement has likely been enhanced by receipts associated with spending to rebuild neighborhoods since the August 2016 flood. This spending and associated sales tax receipts is likely to occur over a long drawn out period that supports collections without exhibiting an obvious surge. However, vehicle sales tax collections have been downgraded for FY 18 as these receipts are much more likely to have exhibited a one-time bump in FY 17 as vehicles were replaced. Finally, while some underlying growth occurs in sales tax collections, the state tax rate increase and base expansions enacted in late 2016 expire at the end of FY 18, resulting in a dramatic drop-off in projected collections in FY 19.

The combined gaming sector of lottery, New

Orleans land-based, riverboat, video poker, and racetrack slots has been essentially unchanged in these forecasts, reflecting a relatively stable environment for this form of spending. Lottery sales projections assume normal levels that do not assume abnormally large jackpots, although actual jackpots have been incorporated. The New Orleans land-based casino is projected to remit its minimum annual payment to the state, as it continues to generate reduced activity following the city indoor smoking ban.

Insurance premium tax receipts (excise license tax) were upgraded for FY 18 by a small amount then reversed somewhat for FY 19, as the expansion of coverage and the tax rate increase associated with the Healthy Louisiana Program normalizes (Medicaid coverage formerly called the Bayou Health Medicaid Managed Care Program). All premium tax collections associated with Medicaid premiums are dedicated to support of the Medicaid program, and do not result in additional general fund resources for other programs of the state budget.

All other revenue sources comprise a variety of revenue flows that both increased and decreased relative to the prior forecast. General fund earnings from state financial investments reflect smaller investable balances and very low available yields, and modest downgrades were made to motor fuels tax receipts. Collections of excise taxes on tobacco, beer, and other alcoholic beverages have settled

into stable higher average monthly positions after tax increases imposed in 2015 and 2016. Finally, the REC approved another adjustment to the vehicle tax increase enacted in 2015 to allow the Office of Motor Vehicles to reclassify all of the receipts resulting from the tax increase as fees and self-generated revenue rather than major state tax revenue. This reclassification resulted in a loss of approximately \$32 M to the state general fund in FY 17, and will result in another \$34 M of general fund loss in FY 19.

Along with forecast increases for FY 18 and FY 19, the entire forecast horizon baseline was increased somewhat, reflecting a slowly improving employment and income outlook over the forecast horizon, with relatively stable mineral price projections. Relative to the 5/16/2017 forecast, total tax projections are now higher by \$183.9 M for FY 20, and \$167.9 M for FY 21. An FY 22 projection was not made as of the May 2017 forecast. General fund projections are now higher by \$200.9 M for FY 20, and \$181.3 M for FY 21.

Out-year forecasts have to be taken with considerable caution. Oil and natural gas prices are currently forecast to be slightly higher than currently, but are highly uncertain and dependent on a producing country agreement to restrain production, and may not adequately reflect the responsiveness of U.S. shale producers. In addition, while the U.S. economy has begun to exhibit strengthening in metrics in employment, growth in wages and inflation have yet to pick up in a sustained way. The world economy has also shown improvement, and the state economy has now exhibited positive employment growth since mid-2017, although the responsiveness of state tax receipts has been modest.

FY 19 Fiscal Cliff/Budget Gap

The “fiscal cliff” facing the state budget in FY 19 originates largely with the temporary effectiveness of various revenue generating measures; especially the 5th penny of sales tax and the broadening of the sales tax base to 2% of tax enacted in the 2016 sessions. The official recognition of the “fiscal cliff” is contained in the five-year continuation budget projection presented monthly to the Joint Legislative Committee on the Budget (JLCB). That projection combines the official REC-based revenue forecast for state general fund receipts with the projected state general fund expenditures necessary to continue the programs currently provided by the state government budget into future years. The latest presentation was made at the 1/22/2018 meeting of the JLCB incorporating changes to the revenue forecast adopted by the REC on 12/14/2017. At that JLCB meeting, the FY 19 general fund revenue projection was lower than the general fund expenditure projection by some \$1.593 B.

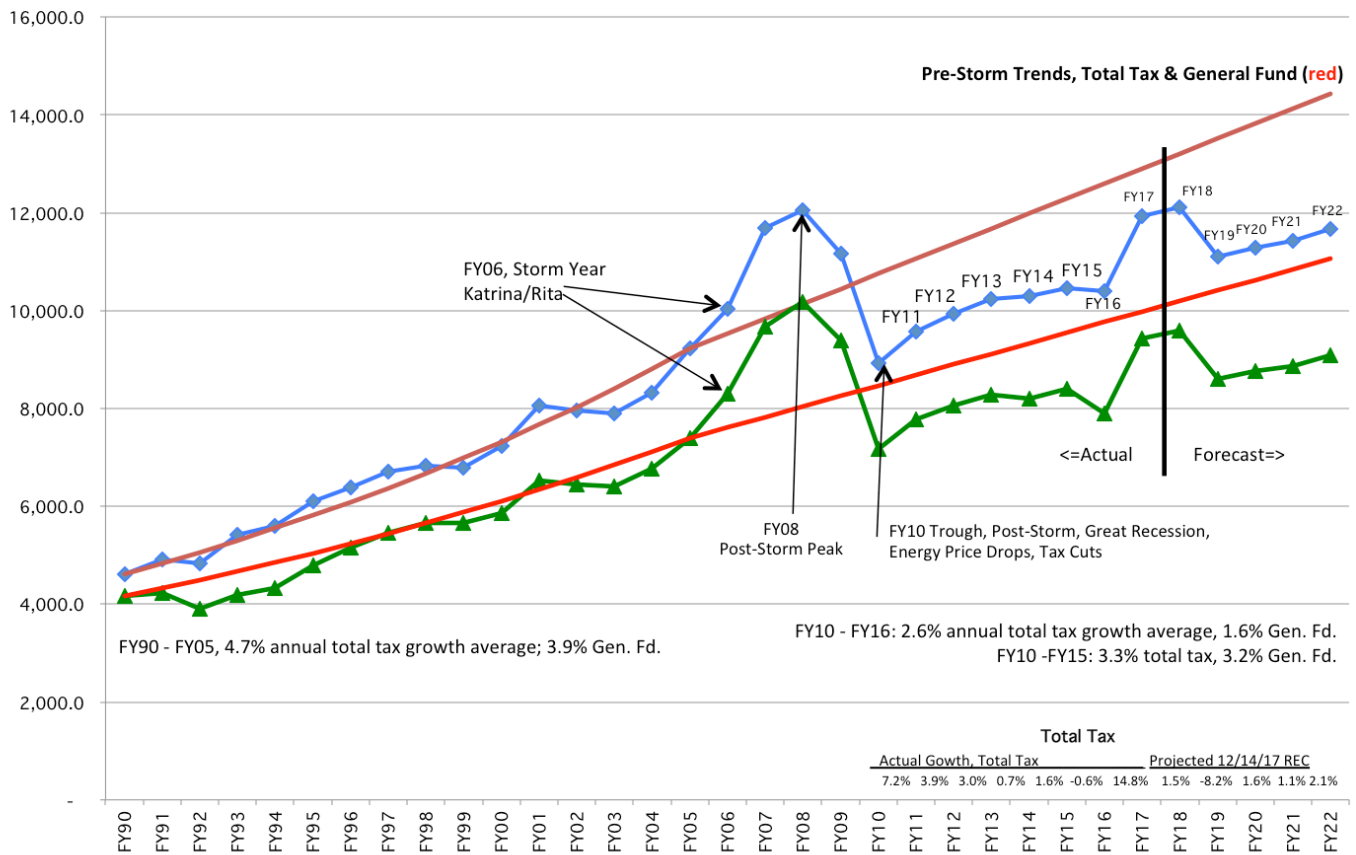
Some 64% of that difference (\$1.013 B) is attributable to the drop-off in general fund revenue resulting from the expiration of the temporary revenue measures netted against all other revenue forecast adjustments, both positive and negative. The remaining 36% of the difference (\$580.8 M) is attributable to general fund expenditure adjustments such as calculated inflation, civil service pay, K-12 enrollment projections, and numerous other funding adjustments translated into a general fund dollar equivalent. These calculations, on both the revenue and expenditure side, convert the vague concept of a “fiscal cliff” into a more precise and official concept of a continuation budget gap. This gap is not a requirement for funding, but represents the funding decisions that have to be made, defining the budget problem facing the state leading up to the presentation of the administration’s executive budget proposal for FY 19.

Recently enacted federal tax law changes will reduce this gap even more, by an estimated \$226 M if no changes to state law occur. This estimate has not yet been incorporated into the official forecast by the REC, but when finally recognized federal law changes will work to diminish the fiscal gap. The gap is continually modified to account for updated REC revenue forecasts as well as any necessary general fund dollar equivalent expenditure adjustments. Incorporation of these actions and issues will have both positive and negative effects on the gap.

A graphical depiction (Chart 1 on Page 4) of the state’s total tax and general fund revenue history and forecast is provided on the following page. Actual revenue collections from FY 90 through FY 17 are combined with their forecast path for FY 18 through FY 22, as of the 12/14/2017 REC meeting. A trend path of each based on their growth over the FY 90 through FY 05 period is also depicted, easily allowing for the observation of the effect of hurricanes Katrina & Rita, and then the post-storm period of national recession and state tax cuts. In addition, the temporary step-up in collections during FY 17 and expected in FY 18 is obvious, as is the drop-off in FY 19 and beyond as those temporary revenue measures terminate.

CHART 1

Total State Tax (blue) & General Fund (green) Receipts (REC-based)



At this point it may be useful to reiterate that the fiscal cliff / budget gap is a calculation of the difference between a general fund equivalent expenditure forecast baseline and a general fund revenue forecast baseline, both of which attempt to incorporate factors that have already occurred and that are projected to occur that affect the two baselines. Consequently, even though a substantial share of the current cliff/gap originates from revenue terminations, the net of all expenditure and revenue considerations, both positive and negative, is what determines the size of the gap. ❖

FY 19 EXECUTIVE BUDGET OVERVIEW

The FY 19 Executive Budget decreases \$2,806,072,754 from the FY 18 existing operating budget (EOB) as of 12/1/2017. The total decrease is comprised of \$860,055,579 SGF; \$92,462,352 SGR; \$178,639,114 Statutory Dedications; and \$1,603,045,486 in Federal funds.

Pursuant to the LA Constitution, Article 7, Section 11.A, appropriations from the state general fund and dedicated funds shall not exceed the official forecast of the Revenue Estimating Conference. As discussed in the previous article regarding revenue forecast revisions, the reduction in funds available for appropriation is due primarily to the expiration of temporary revenue generating measures expiring on 6/30/2018. Accordingly, the recommended budget contains significant reductions to the state's general operating budget. Restoration of any portion of these cuts will require the legislature to consider alternative spending cuts, approval of legislation to increase revenues, or some combination thereof. The governor has proposed a special session to be convened prior to the start of the 2018 regular session to consider revenue-raising measures. Potential revenue enhancements have been tentatively proposed and are currently being discussed with legislative leadership.

In constructing the Executive Budget recommendation, as per standard practice, the DOA made adjustments against the EOB as of 12/1/2017 to modify expenditure authority for identified needs. Consideration was given to constitutional obligations, cuts from prior years including workforce

reductions, and minimizing service delivery impacts to citizens. Additionally, new major expenditures required reductions to ongoing services (see Table 2 below). Unlike budget development from prior years, no pro rata reductions were applied to agencies on a statewide basis. Instead, any such reductions were applied on a limited or selective basis. ❖

TABLE 2		
<i>New Major Expenditures (SGF Only)</i>		
Agency	Expenditure	Amount (in millions)
Statewide	Civil Service Pay Plan	\$ 36.1
Secretary of State	New election system equipment	\$ 3.0
	Election expenses	\$ 1.6
	Registrar of Voter personnel costs	\$ 0.2
Corrections Services	Allen Correctional Facility personnel costs to shift from private management contract to state run facility	\$ 0.8
Health	MCO adjustment (PMPM payment)	\$ 156.5
	ELMHS Cooper Jackson settlement agreement	\$ 10.1
Children & Family Services	Integregared Eligiblity IT project	\$ 13.6
	Child Welfare Reporting System IT project	\$ 6.9
	State Central Registry (Act 348 of 2017)	\$ 6.0
Education	Minimum Foundation Program (MFP)	\$ 9.8
Economic Development	Debt service	\$ 16.3
TOTAL		\$ 260.9

FY 19 EXECUTIVE BUDGET DEPARTMENTAL OVERVIEWS

In this section the LFO will discuss the Executive Budget recommendations and some potential, significant issues for select departments and agencies. The LFO will soon publish its comprehensive analysis of the Executive Budget.

Civil Service Pay Raise - In June 2017, the State Civil Service Commission adopted and the Governor approved a “Compensation Redesign” package regarding pay and pay schedules. The major components of the plan consisted of a 2% increase for eligible employees; pay increases for employees below new minimums; market rate adjustments; and performance pay. Finally, the plan abolished the existing annual performance/merit adjustment rule. Portions of the plan were implemented in FY 18 (effective January 2018), with full implementation to take effect in FY 19. Executive Budget funding for the plan totals \$85.4 M; \$36.1 M or 42.2% of which is SGF. The SGF adjustments include \$13.5 M (\$30.7 M total MOF) to annualize 2% pay raises given in January 2018, and reclassification expenditures from FY 18; and \$22.6 M (\$54.7 M total MOF) for market rate adjustments effective 7/15/2018. (See Department of Civil Service Compensation Redesign for State Employees write up on Page 13 of this newsletter for more information on the pay plan.)

❖ General Government ❖

Governor’s Office of Homeland Security & Emergency Preparedness – The FY 19 Executive Budget recommends a total budget of \$983.5 M, reflecting a total decrease of \$23.7 M (including reductions of \$20.1 M SGF and \$5.1 M IAT and offset by increases of \$1 M Statutory Dedications – State Emergency Response Fund and \$526,567 Federal funds). Significant adjustments include non-recurring one-time or expiring

supplies, interoperability build out of the National Public Safety Broadband Network, and FEMA debt payments and state cost share of Public Assistance expenditures related to the 2016 flood events; providing \$4.7 M SGF for replacement of communications hardware, conversion of deployable trailers, and purchase of software and mobile device licenses; providing \$1.025 M (\$25,000 SGF and \$1 M Statutory Dedications – State Emergency Response Fund) to support potential non-federally declared disasters and emergency response efforts; and, elimination of \$21.2 M in outstanding FEMA debt payments for FY 19 (see below).

The Commissioner of Administration testified before the Joint Legislative Committee on the Budget at its meeting on 1/22/2018, that the governor will seek to utilize approximately \$46 M of excess funds recognized for FY 18 by the Revenue Estimating Conference in December 2017 to prepay FEMA debt payments for FY 19 and FY 20. If the legislature agrees to this plan, debt payments from the SGF in those fiscal years will decrease accordingly (\$21.2 M - FY 19 and \$25.1 M - FY 20) and offset the need to make additional SGF reductions in other areas of state government. To the extent this use of excess funds is not approved, the legislature will have to restore \$21.2 M SGF to GOHSEP's FY 19 operating budget for FEMA debt payments. Outstanding payments of \$7.4 M and \$7.5 M will be due for repayment to FEMA in FY 21 and FY 22 respectively.

Department of Veterans Affairs – Realizes a 3.8% overall increase of \$2.6 M and 1 T.O. from the EOB base of 12/1/2017, of which \$2.5 M is federal funds associated with increased direct care staffing costs and the decentralization of pharmacy operations. The net increase of 1 T.O. position is a result of 11 new direct care positions at the homes in Jennings (5), Bossier City (2), and Reserve (4), as well as the elimination of 10 T.O. at the LA War Veterans Home in Jackson corresponding with the elimination of 32 beds to align with new utilization projections. Also included in the executive budget is an overall net federal increase for the decentralization of pharmacy operations in the veteran's homes. Pharmacy operations will be decentralized from the home in Reserve and the homes in Monroe, Jennings, and Bossier City will bring pharmacy services in-house.

DOTD – The FY 19 Executive Budget recommends a total budget of \$630.4 M, reflecting a total decrease of \$10.63 M (including reductions of \$490,000 SGR, \$4.37 M Statutory Dedications and \$7.79 M Federal while offset by an increase of \$2.02 M IAT). Significant adjustments include an increase of \$2.04 M (\$2.02 M IAT and \$0.25 M Statutory Dedications) for Topographic Mapping (see below); elimination of a \$300,000 Statutory Dedication appropriation from the Geaux Pass Transition Fund as the balance is depleted, these funds were used to provide for enhanced grass cutting and maintenance around the Crescent City Connection Bridge; and elimination of a \$1.63 M Statutory Dedication appropriation from the New Orleans Ferry Fund, which will reduce the level of funding for the Algiers/Canal Street and Lower Algiers/Chalmette ferries operated by the New Orleans Regional Transit Authority (NORTA) - \$4.0 M of Transportation Trust Fund – Regular will continue supporting operation of the Chalmette ferry.

Topographic Mapping

The FY 19 Executive Budget completes consolidation of statewide topographic mapping functions and governmental services under DOTD operations. The budget recommends a total increase of \$4.1 M (including \$1.1 SGF, \$2.02 M IAT, \$39,746 SGR, \$795,599 Statutory Dedications and \$111,687 Federal) and two T.O. positions. Removing the double-counted IAT from the overall increase, participating agencies were provided with approximately \$2 M to transfer to DOTD for statewide topographic mapping expenditures. DOTD's total projected expenditures for topographic mapping services in FY 19 are approximately \$3.3 M. The T.O. positions added are a pilot and IT GIS Support Analyst. Agencies utilizing the consolidated mapping services include: Division of Administration, Office of Community Development, Coastal Protection & Restoration Authority, Governor's Office of Homeland Security & Emergency Preparedness, Military Affairs, Agriculture & Forestry, Economic Development, Culture Recreation & Tourism, Office of State Police, Department of Health, Children & Family Services, Natural Resources, Environmental Quality, Wildlife & Fisheries, and Education.

Department of Public Safety & Corrections - Corrections Services – Corrections Services realizes a 0.34% increase of \$1.6 M SGF in the FY 19 Executive Budget above the 12/1/2017 SGF base of \$490.9 M. The department realizes a net total funds increase of \$4.5 M, or a 0.81%, above the 12/1 total funding base of \$554.4 M, including the aforementioned SGF increase. Significant adjustments include: \$2.6 M for a pay increase for Probation & Parole Agents (\$885,093 SGF, \$750,000 SGR, and \$960,000 Statutory Dedication – Adult Probation & Parole Officer Retirement Fund); a \$2.7 M SGF decrease as a result of lowering the per

diem rate by \$5 from \$24.83 to \$19.83 at Winn Correctional Center; and a \$813,883 M total increase for Allen Correctional Center to operate as a state facility (including an increase of \$1.06 M SGR offset by a decrease of \$247,710 SGF) along with a corresponding increase of 150 T.O. positions. The Executive Budget also converts 20 job appointments to classified T.O. for medical/case management purposes associated with the timely release of offenders and eliminates 30 T.O. positions department wide for a total net increase of 140 T.O. positions.

Department of Public Safety & Corrections – Public Safety Services – Public Safety Services realizes a 1.08% net decrease of \$5.1 M from the EOB base of 12/1/2017, including decreases of \$19.4 M SGF, \$6.1 M Statutory Dedications, and \$602 K Federal along with an offsetting increase of \$21.1 M SGR. The FY 19 Executive Budget recommendation includes elimination of all SGF in DPS. Of the \$19.4 M SGF reduction, \$14.4M is a MOF substitution for SGR mostly derived from certificate of title fees. The remaining \$5 M reduction is the non-recurring of funding for the state police training academy required by R.S. 47:1676E(1) through FY18. Significant adjustments include a reduction of overtime expenditures in the Office of State Police (\$7.1 M SGR) and a 3% pay increase for state troopers (\$3.7 M SGR).

Department of Public Safety & Corrections – Youth Services – Office of Juvenile Justice realizes a 12.62% decrease of \$13.83 M SGF in the FY 19 Executive Budget below the 12/1/2017 SGF base of \$109.6 M. The department realizes a net total funds decrease of \$13.84 M, or 11.22%, below the 12/1 total funding base of \$123.4 M, including the aforementioned SGF decrease. Significant adjustments include: an overall SGF reduction of 10% totaling \$10.8 M resulting in the closure of five regional offices statewide (\$1.4 M), reduction of 114 authorized positions in field offices (\$8.8 M), and reduction in LEAF payments due to early payoff of lease in FY 18 (\$0.5 M); and non-recurs \$4.9 M SGF intended to equip and open the Acadiana Center for Youth. *Note: The FY 19 Executive Budget does not provide funds to open the new Acadiana Center for Youth. OJJ 's FY 19 budget request includes \$14.3 M SGF assuming the facility opens in April 2018.*

Local Housing of Adult Offenders (LHOA) – LHOA realizes a 23.06% decrease of \$40.4 M SGF in the FY 19 Executive Budget below the 12/1/2017 SGF base of \$175.2 M. Significant adjustments are: a decrease of \$29.1 M SGF to lower the per diem rate paid to sheriffs and operators of transitional work programs by \$5; a decrease of \$10 M SGF to eliminate payments to local sheriffs for parole holds; a decrease of \$5 M SGF to decrease the per diem rate paid to sheriffs and operators of work release/transitional housing programs by \$5; and an increase of \$3.7 M SGF to provide funding for additional offenders participating in transitional work programs based on current projections.

District Attorneys and Assistant District Attorneys – This budget unit realizes an 82.8% decrease of total appropriation authority, including elimination of all \$26.4 M SGF support. The Executive Budget retains \$5.45 M in Statutory Dedication funding from the Video Draw Poker Device Fund (\$5.4 M) and the Pari-mutuel Live Racing Facility Gaming Control Fund (\$50 K). At this funding level each district attorney will receive the full annual base pay (\$50,000) as required by the constitution for elected officials, with the remaining funds used to make payments to the assistant district attorneys. Funding for assistant district attorneys will run out in August 2018 at current staffing levels. There is no funding for victim assistance coordinators included in the Executive Budget.

Elected Officials

Agriculture & Forestry (LDAF) – LDAF realizes a 7.1% net decrease of \$5.5 M from the EOB base as of 12/1/2017, including a decrease of \$6.1 M SGF and \$575 K Federal and partially offset by an increase of \$1.1 M in Statutory Dedications. In FY 18, LDAF will make the final payments on existing debt service bonds, freeing up \$7.8 M of LA Agriculture & Finance Authority (LAFA) funds. These LAFA funds will offset the reduction in SGF by a means of financing substitution.

Justice – The FY 19 Executive Budget recommends a total budget of \$68.8 M, reflecting a total decrease of \$6.7 M (\$3.2 M SGF, \$2.6 M IAT, \$50,000 SGR, \$464,237 Statutory Dedications, and \$440,409 Federal funds). Significant adjustments include a 5% SGF reduction (\$869,649) and the elimination of excess budget authority in IAT revenues (\$2 M). Additionally, there is a reduction of \$2.6 M SGF, which was a one-time funding offset to the transfer of fund balances from off-budget escrow accounts to the SGF approved as part of the FY 18 budget. At this time, the AG has not provided the LFO with the anticipated impacts of these reductions.

State – FY 19 recommended budget totals \$84 M (\$56.2 M SGF, \$157 K IAT, \$27.6 M SGR, and \$113 K Statutory Dedications) reflecting a net increase of \$3.1 M. The majority of the increase is associated with elections expenses. This includes \$3 M for the department’s initiative to replace outdated voting system equipment and \$1.6 M to fund increased election expenses associated with the Open Primary / Congressional, Open General / Congressional, and Municipal Primary and General elections.

Treasury – The FY 19 Executive Budget recommends a total budget of \$11.3 M (\$1.68 M IAT, \$8.8 M SGR, and \$811,455 Statutory Dedications) reflecting a net decrease of \$59,979 M. The decrease in Treasury’s budget recommendation is tied to a 5% reduction to expenditures paid from SGR. Unexpended SGR by the Treasury reverts to the SGF at the close of the fiscal year. The Treasury indicates that it is currently working on a plan to absorb the proposed reduction, while examining potential impacts to constitutional and statutory responsibilities. A plan will be provided when available.

Judiciary – The FY 19 Executive Budget recommends a total budget of \$163.5 M, reflecting a 5% decrease of \$7.5 M SGF. The LA Supreme Court reports that it has not determined the impact of the SGF reduction at this current time. Potential solutions include reductions of discretionary funds; administrative costs (travel, supplies, renegotiation and reduction of contracts, etc.); and discretionary programs (drug and reentry courts, Family in Need of Services representation, Child in Need of Care representation, and the Court-Appointed Special Advocates program); including potential staff reductions within these programs. Any solution to the \$7.5 M reduction is subject to the approval of the Judicial Budgetary Control Council and the Chief Justice of the Supreme Court.

❖ Health and Hospitals ❖

Medicaid – FY 19

The Governor’s Executive Budget reduces overall funding in Medicaid by \$2.3 B (19.2%) in FY 19, from an existing operating budget baseline at 12/1/2017 of \$11.95 B to a recommended appropriation of \$9.61 B. (See Table 3 below). The reduction in funding is largely the result of program reductions and eliminations, including a 90% cut in Disproportionate Share Hospital (DSH) payments for uncompensated care costs (UCC) from FY 18 base funding. DSH payments are largely paid to the partner hospitals.

TABLE 3

FY 19 Medicaid (Medical Vendor Payments)				
	EOB	Executive Budget	Difference	
SGF	\$ 1,935,282,553	\$ 1,425,221,419	\$ (510,061,134)	
IAT	\$ 24,603,787	\$ 7,745,805	\$ (16,857,982)	
Fees/Self-Gen	\$ 430,505,205	\$ 267,777,283	\$ (162,727,922)	
Stat. Ded.	\$ 821,238,138	\$ 715,746,821	\$ (105,491,317)	
Federal	\$ 8,739,568,913	\$ 7,202,247,998	\$ (1,537,320,915)	
TOTAL	\$ 11,951,198,596	\$ 9,618,739,326	\$ (2,332,459,270)	

Significant reductions reflected in the Medicaid budget are a result of private provider program and eligibility group eliminations/reductions, and reductions in DSH funding (UCC program). Significant reductions (state and federal funding) are reflected below:

- (\$769.1 M) – DSH reduction (supports various providers and partner hospitals)
- (\$201.8 M) – Reduction in federal allowable DSH cap
- (\$971.7 M) – Eliminate Long Term Care Special Inc. Level Program eligibility group
- (\$160.1 M) – Eliminate Long Term Personal Care Services (LT-PCS) Program
- (\$106.6 M) – Eliminate Provisional Medicaid Eligibility Group
- (\$73.7 M) – Reduce Substance Abuse Services
- (\$50.3 M) – Reduce Mental Health Rehabilitation Services
- (\$30.3 M) – Eliminate Pediatric Day Healthcare (PDHC) Services
- (\$29.3 M) – Eliminate Medically Needy Regular Eligibility Group
- (\$15.7 M) – Eliminate Ambulatory Surgical Center Services
- (\$13.5 M) – Eliminate Support’s Waiver
- (\$13.5 M) – Reduce NOW Waiver Services
- (\$13.4 M) – Eliminate Children’s Choice Waiver
- (\$3.4 M) – Eliminate Medically Needy Spend Down Program
- (\$3.0 M) – Eliminate nursing home bed hold payments

Although the FY 19 budget reflects a significant net reduction in overall Medicaid funding, the budget includes various funding increases, including an adjustment that provides \$249 M in additional premium payments paid to Managed Care Organizations (MCO's). Significant funding increases are reflected below.

FY 19 Medicaid Enhancements in HB 1 Original

\$245.6 M – Managed Care Per Member Per Month payment rate increase

\$8.5 M – Dental Managed Care utilization increase

\$9.3 M – Pharmacy program fee for service utilization increase

\$15.8 M – Federally Qualified Health Clinic and Rural Health Clinic rate increase

\$17.8 M – Annualization of FY 17 Waiver Program enrollment

\$8.2 M – Medicare Buy In Premium Increases (Part A, Part B, Part D)

\$2.8 M – Rural Hospital inpatient per diem rate increase (rebase)

DSH Allocation

The Uncompensated Care Costs (UCC) program in Medical Vendor Payments provides Disproportionate Share Hospital (DSH) payments to qualifying hospitals for certain uncompensated care costs associated with serving uninsured/ indigent patients. Historically, DSH has been paid to various providers, including partner hospitals. Further, the state operates a DSH Low Income & Needy Care Collaboration Agreement (LINCCA) program and makes DSH payments to participating hospitals. FY 18 EOB DSH budget authority totals \$914.2 M. For FY 19, the executive budget allocates \$84.5 M, only for the Office of Behavioral Health (public psychiatric free standing units).

Note: A portion of the overall UCC program cut includes a specific reduction of \$201 M in total Disproportionate Share Hospital (DSH) funding as a result of anticipated federal DSH allotment reductions as authorized under the Patient Protection Affordable Care Act (PPACA) of 2010. State specific annual DSH allotment reductions begin in FY 18 through 2025.

Public/Private Partnership Hospitals

The Executive Budget eliminates supplemental funding for the partnership hospitals for FY 19. Approximately \$1.15 B in supplemental payments is budgeted for the partnerships in FY 18). In addition to Title XIX Medicaid claims payments, the Public Private Partnerships have been historically funded with both DSH and Upper Payment Limit (UPL) supplemental payments. Table 4 at right outlines the current funding level of each hospital, the preceding two years of actual expenditures, and projected supplemental funding levels for FYs 18 and 19.

Consequences of leaving the partnership hospitals unfunded for FY 19 are uncertain, although reducing all supplemental payments is anticipated to trigger clauses within cooperative endeavor agreements (CEAs) that may lead to termination of the partnerships. A notable effect of termination of the partnerships is a reduction in SGF

TABLE 4

Partner by City	SFY 2016 Exp	SFY 2017 Exp	SFY 2018 Budget	SFY 2019 Budget
Alexandria - Christus & Rapides Healthcare	\$51,398,587	\$49,981,369	\$46,078,961	\$0
Baton Rouge - Our Lady of the Lake	\$116,275,715	\$106,382,773	\$103,500,000	\$0
Baton Rouge - Woman's Hospital	\$8,400,000	\$14,058,231	\$10,203,122	\$0
Bogalusa - Our Lady of Angels	\$43,956,175	\$34,862,704	\$34,862,704	\$0
Houma - LJ Chabert Medical Center	\$118,069,090	\$142,508,286	\$134,508,286	\$0
Independence (Lallie Kemp)	\$23,321,262	\$17,724,427	\$19,689,961	\$0
Lafayette - University Medical Center	\$122,970,301	\$115,674,328	\$118,231,941	\$0
Lake Charles - Lake Charles Memorial	\$52,140,172	\$45,066,715	\$41,582,958	\$0
New Orleans - University Medical Center	\$409,969,695	\$406,997,660	\$387,920,718	\$0
Shreveport & Monroe - BRF	\$240,701,215	\$255,350,693	\$251,169,656	\$0
Totals:	\$1,187,202,212	\$1,188,607,186	\$1,147,748,307	\$0

Note: Table includes funding for Lallie Kemp Hospital (non-partner).

revenues to the state, as a result of private partners no longer leasing public hospital facilities or equipment. The Executive Budget contemplates elimination of all supplemental payments to the partnerships, however, still assumes the SGF lease revenue in the REC forecast for FY 19. Based on these assumptions, the REC would have to decrease forecasted revenues to account for any lost lease payments in FY 19.

Table 5 below outlines the projected five-year LFO forecast of lease payments beginning with FY 18. All or a portion of these revenues will likely be lost in FY 19 and in subsequent FYs if the CEAs terminate.

TABLE 5					
	FY 18	FY 19	FY 20	FY 21	FY 22
Projected Lease Revenues	\$165,661,775	\$168,367,363	\$171,150,736	\$173,986,418	\$176,875,402

Healthy Louisiana MCO Funding

Healthy Louisiana managed care premium payments currently budgeted in FY 18 (at 12/1/2017) totals \$7.8 B (not including dental managed care plans). The Executive Budget reflects a specific \$245 M funding increase added for managed care premium payments. This adjustment is based on a projected increase in trend (utilization and inflation on services), the carve in of Applied Behavioral Analysis (ABA) services as a new benefit managed by the plans, reimbursing the health plans in the rates the amount of a federal health insurance provider tax (authorized under the ACA), and programmatic changes. However, the net level of managed care premium payments to the health plans for FY 19 will ultimately be based on specific program cuts to overall Medicaid and payment reform initiatives. One aspect of payment reform includes moving \$515 M in Full Medicaid Pricing/supplemental payments from the partnership hospitals to a 'High Medicaid' supplemental payment pool. It is assumed a portion of these supplemental payments will continue to be paid to the health plans (directed as pass through funding added to premium payments to various hospital providers).

Note: Statewide weighted average PMPM rates assumed in the FY 19 budget are reflected below:

- \$470.58 – average rate for expansion population
- \$363.25 – average rate for non expansion population

Certain restorations to Medicaid or a change in the premium rates (anticipated in any subsequent rate letters) could materially change the level of premium payment funding for FY 19. The budget is built on premium rates certified by the actuary (Mercer) for a rate period effective 2/1/2017 (adjusted for trend, program changes, and member mix changes). Rates that will be certified in the upcoming rate letters for the time period beginning 2/1/2018 through 1/31/2019 and beginning 2/1/2019 may ultimately vary from the rates assumed and budgeted in the Executive Budget.

Medicaid Payment Liabilities

13th Checkwrite – The Executive Budget does not provide funding for a Medicaid managed care checkwrite payment liability. Only 12 MCO checkwrites are provided in the budget for FY 19. The unfunded payment liability in FY 18 is approximately \$683 M total funding (\$146.5 M SGF). The cost of the 13th checkwrite if paid in future fiscal years depends on multiple factors, however could be more than projected in FY 18 due to projected trend growth in Medicaid Managed Care for FY 19.

Medicaid Pharmacy Disallowance – The Executive Budget does not provide funding for a notice of disallowance in the amount of \$26.2 M (\$16.7 M federal) as a result of the state claiming federal reimbursement for expenditures for a state plan amendment (SPA) before the SPA was federally approved by the Centers for Medicare & Medicaid (CMS).

Payment Reform

Information provided by the LA Department of Health indicates several payment reform initiatives within Medical Vendor Payments are anticipated to be implemented for FY 19. One initiative implements a pool payment methodology for both DSH payments and Supplemental UPL payments. The LFO has not received any additional information indicating the qualifying criteria for hospitals, nor the level of payments that an individual hospital provider may qualify to receive. **Note:** It is not anticipated that this

initiative can fully be implemented in FY 19 based on the level of DSH funding allocated in the Executive Budget.

❖ Education ❖

FY 19 Minimum Foundation Program (MFP)/Dept. of Education

The Minimum Foundation Program (MFP) provides for an equitable distribution of state funds to local school districts. The MFP is the major source of state funding to local schools. For FY 18, the MFP is funded at \$3.717 B; \$3.458 B in SGF and \$258.6 M in Statutory Dedications from the Support Education in LA First Fund (\$104.1 M) and Lottery Proceeds Fund (\$154.5 M). The FY 19 Executive Budget includes an adjustment of \$9.8 M for an anticipated increase of 2,786 students. This is offset by a reduction of \$7.4 M in one time expenses associated with the assistance provided to school districts impacted by the floods of August 2016 in the current year. The net increase for the FY 19 MFP is \$2.3 M. Additionally, there is a \$3 M MOF swap replacing SGF with statutory dedications due to an increase in SELF funds (\$3 M) based on the most recent REC forecast. The FY 19 recommended funding totals \$3,720 B, \$3,458.3 M SGF, \$154.5 M Lottery Proceeds Fund and \$107.2 M SELF Fund.

Department of Education (DOE) FY 19 funding totals \$1.593 B (\$126.7 M SGF, \$254 M IAT, \$51.1 M SGR, \$15.1 M Statutory Dedications and \$1,146.1 B Federal funds). This represents a total reduction of \$34.3 M, approximately 2%, associated primarily with the elimination of funding for non-public schools totaling \$16 M (\$8.3 M for reimbursement of administrative expenses through the Required Services Program and \$7.5 M for supplemental payments for school lunch personnel through the School Lunch Salary Program.) Funding for constitutionally mandated Textbook supplements remains funded at \$2.7 M. Additionally, funding for the Recovery School District Instructional Program is being reduced \$10 M (\$6.9 M IAT, \$3.1 M SGR) pursuant to Act 91 which transfers 38 charter schools back to the authority of the Orleans Parish School Board effective 7/1/2018.

Subgrantee Assistance is funded at a standstill level. Activities funded in this program include the LA 4 Program and the Student Scholarship for Educational Excellence Program (SSEEP) (vouchers). *The Cecil J. Picard LA 4 Early Childhood Program* is the primary pre-school program in the state, serving approximately 16,300 children. It provides up to ten hours of early childhood education and before and after activities daily to four-year-olds from disadvantaged families. The *Nonpublic Schools Early Childhood Development Program (NSECD)* provides low-income families the opportunity to attend state-approved private pre-schools and childcare centers and serves approximately 1,500 preschool children annually. Current per child funding is \$4,580. For FY 19, the LA 4 Program is funded at \$77 M (\$36.5 M SGF and \$40.5 M TANF) and NSECD funding at \$6.9 M SGF for total LA4 program funding of \$83.9 M.

SSEEP allows selected students to attend participating non public schools with tuition expenses paid by the state. FY 18 funding is \$39.8 M. There were 6,907 students enrolled in the 1st quarter ending 9/30/2017 for an annualized cost which exceeds \$41.1 M. FY 19 budget recommends standstill funding of \$39.8 M.

FY 19 Higher Education

Higher Education – FY 19 funding is recommended at \$2.45 B, reflecting a net decrease of \$272 M. Reductions include \$272.3 M SGF, \$3.4 M Statutory Dedications, and \$422 K IAT; and other means of financing was increased by \$4.1 M (\$3.9 M SGR and \$201,800 Federal funds).

Significant adjustments include the elimination of all SGF (\$233.3 M) for the TOPS Program leaving TOPS funded solely with the statutorily dedicated TOPS Fund (\$58 M). Additional SGF reductions include \$13 M to GO Grants and \$25.7 M to the funding formula as part of the statewide reductions implemented to address the SGF shortfall. This \$25.7 M SGF reduction represents an average 3.5% prorated cut for institutions under the Higher Education funding formula. Statutory dedications reductions (\$3.5 M) are based on the most recent REC forecasts.

Table 6 on the Page 12 illustrates the potential impacts of the SGF reductions on individual institutions and systems. The recommended budget does not allocate specific amounts of SGF to individual institutions or systems. Instead, the recommended budget assigns all the SGF to the Board of Regents (BOR) for allocation after passage of the General Appropriation Bill. The SGF allocation for each institution/system in FY 19 contained in the table is based on the same relative portion of their SGF allocation from FY 18.

TABLE 6

Higher Education State General Fund by System and Institution
FY 18 EOB compared to FY 19 Recommended (Pro-rated SGF Cut).

	EOB Base for Distribution ¹	(\$25,680,922)	% Chng	FY 19 Recom ²	% Chng
Board of Regents	\$13,072,006	(\$451,777)	-3.5%	\$12,620,229	-5.1%
LA Universities Marine Consortium	\$2,277,892	(\$78,725)	-3.5%	\$2,199,167	-3.5%
Office of Student Financial Assistance					
Administration	\$3,252,157	(\$112,397)	-3.5%	\$3,139,760	-3.5%
Scholarships/Grants	\$1,507,301	(\$52,093)	-3.5%	\$1,678,436	-43.7%
TOPS Tuition	\$0	\$0	-100.0%	\$0	-100.0%
Total Board of Regents	\$20,109,356	(\$694,992)	-93.1%	\$34,743,472	-87.7%
Community & Technical Colleges System					
Baton Rouge Community College	\$14,432,889	(\$498,810)	-3.5%	\$13,934,079	-3.5%
Bossier Parish Community College	\$10,847,513	(\$374,897)	-3.5%	\$10,472,616	-3.5%
Central La Technical Community College	\$6,056,373	(\$209,312)	-3.5%	\$5,847,061	-3.5%
Delgado Community College	\$25,533,593	(\$882,457)	-3.5%	\$24,651,136	-3.5%
L.E. Fletcher Technical Community College	\$3,406,738	(\$117,739)	-3.5%	\$3,288,999	-3.5%
LCTCS Board of Supervisors	\$7,099,163	(\$245,352)	-3.5%	\$6,853,811	-3.5%
LCTCSOnline	\$1,286,145	(\$44,450)	-3.5%	\$1,241,695	-3.5%
Louisiana Delta Community College	\$7,344,573	(\$253,833)	-3.5%	\$7,090,740	-3.5%
Louisiana Technical College	\$8,322,697	(\$287,638)	-3.5%	\$8,035,059	-3.5%
Northshore Technical Community College	\$5,398,002	(\$186,558)	-3.5%	\$5,211,444	-3.5%
Nunez Community College	\$3,618,662	(\$125,063)	-3.5%	\$3,493,599	-3.5%
River Parishes Community College	\$3,331,782	(\$115,148)	-3.5%	\$3,216,634	-3.5%
South Louisiana Community College	\$12,329,806	(\$426,126)	-3.5%	\$11,903,680	-3.5%
SOWELA Technical Community College	\$7,746,573	(\$267,726)	-3.5%	\$7,478,847	-3.5%
Total LCTCS System	\$116,754,509	(\$4,035,109)	-3.5%	\$112,719,400	-3.5%
LSU System					
LSU Agricultural Center	\$67,696,729	(\$2,339,641)	-3.5%	\$65,357,088	-3.5%
LSU A&M College	\$115,513,766	(\$3,992,228)	-3.5%	\$111,521,538	-3.5%
LSU Alexandria	\$4,847,690	(\$167,539)	-3.5%	\$4,680,151	-3.5%
LSU Eunice	\$4,620,901	(\$159,701)	-3.5%	\$4,461,200	-3.5%
LSU Shreveport	\$7,615,400	(\$263,193)	-3.5%	\$7,352,207	-3.5%
LSU Health Sciences Center New Orleans	\$75,847,984	(\$2,621,354)	-3.5%	\$73,226,630	-3.5%
LSU Health Sciences Center Shreveport	\$58,202,700	(\$2,011,522)	-3.5%	\$56,191,178	-3.5%
Pennington Biomedical Research Center	\$16,182,659	(\$559,283)	-3.5%	\$15,623,376	-3.5%
Total LSU System	\$350,527,829	(\$12,114,461)	-3.5%	\$338,413,368	-3.5%
Southern University System					
Southern Board of Supervisors	\$2,959,185	(\$102,271)	-3.5%	\$2,856,914	-3.5%
Southern Univ A&M College	\$19,378,311	(\$669,727)	-3.5%	\$18,708,584	-3.5%
Southern University Law Center	\$6,169,908	(\$213,236)	-3.5%	\$5,956,672	-3.5%
Southern University New Orleans	\$5,518,427	(\$190,720)	-3.5%	\$5,327,707	-3.5%
Southern University Shreveport	\$4,016,328	(\$138,807)	-3.5%	\$3,877,521	-3.5%
SU Agricultural Research/Extension Center	\$3,448,222	(\$119,173)	-3.5%	\$3,329,049	-3.5%
Total SU System	\$41,490,381	(\$1,433,934)	-3.5%	\$40,056,447	-3.5%
University of Louisiana System					
BD of Suprs-Univ of LA System	\$1,025,487	(\$35,441)	-3.5%	\$990,046	-3.5%
Grambling State University	\$12,397,631	(\$428,470)	-3.5%	\$11,969,161	-3.5%
Louisiana Tech University	\$27,128,500	(\$937,578)	-3.5%	\$26,190,922	-3.5%
McNeese State University	\$16,700,736	(\$577,188)	-3.5%	\$16,123,548	-3.5%
Nicholls State University	\$13,983,559	(\$483,281)	-3.5%	\$13,500,278	-3.5%
Northwestern State University	\$19,797,594	(\$684,217)	-3.5%	\$19,113,377	-3.5%
Southeastern Louisiana University	\$27,437,909	(\$948,271)	-3.5%	\$26,489,638	-3.5%
University of Louisiana - Lafayette	\$45,215,717	(\$1,562,683)	-3.5%	\$43,653,034	-3.5%
University of Louisiana Monroe	\$23,937,086	(\$827,281)	-3.5%	\$23,109,805	-3.5%
University of New Orleans	\$26,562,492	(\$918,016)	-3.5%	\$25,644,476	-3.5%
Total UL System	\$214,186,711	(\$7,402,426)	-3.5%	\$206,784,285	-3.5%
Total Postsecondary Education	\$743,068,786	(\$25,680,922)	-28.6%	\$732,716,972	-27.1%

¹ FY 18 EOB Base for Distribution backs out funding for START (\$1.9 M), Go Grants (\$13.4 M). TOPS SGF funding was eliminated in Exec Budget.

² FY 19 Recommended includes the \$1.9 M START funding and \$13.4 M Go Grants funding.

Excluding LOSFA, Table 6 indicates that remaining institutions and systems will receive a 3.5% pro rata reduction in SGF. The institutions will receive an additional reduction as a result of the \$3.5 M Statutory Dedications reduction. However, the funding formula adopted by the BOR will not allocate funding to institutions and systems on a uniform basis. The table is intended to generally illustrate the magnitude of the reductions in SGF faced by institutions and systems in the proposed budget.

The Higher Education Funding Formula currently allocates funds based on the following components: a pro-rata or base funding share (65%), cost share (17.5%), and outcomes share (17.5%). The BOR has not yet provided information on any changes to the allocation ratios that may be proposed for FY 19; the annual funding formula is required to be released on March 31 st of each fiscal year by the BOR.

TOPS: Funding for FY 19 totals \$58 M (\$0 SGF and \$58 M in Statutory Dedications) or 20% of actual need. Based on this funding level, OSFA estimates that a projected 50,814

recipients will receive approximately 19.5% of the maximum award amount (including stipend amounts for Honors and Performance awards).

GO Grant: Funding for FY 19 totals \$13.4 M, a \$13 M reduction (49%) from FY 18 (\$26.4 M), and represents 21% of actual need to fund all eligible Go Grant recipients (\$62.5 M). ❖

GENERAL GOVERNMENT

Department of Civil Service Compensation Redesign for State Classified Employees

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In FY 17 the State Civil Service (SCS) formed a study group with an objective to analyze the State's classified pay schedules, identify problems and recommend solutions. The result was a Compensation Redesign Initiative that purports to fundamentally shift the way classified employees are attracted, paid and retained. Ultimately, the State Civil Service Commission adopted a compensation redesign package including certain amendments to Civil Service Rules regarding pay and all classified pay schedules were revised on 6/7/2017 and subsequently approved by Governor John Bel Edwards on 6/26/2017 for phased implementation beginning in FY 18.

The FY 18 General Appropriations Bill (GAB) provided \$17.9 M SGF for the 2% base pay increase that was awarded in January 2018 for eligible employees. The FY 19 Executive Budget provides \$85.4 M (\$36.1 M SGF) for adjustments related to the compensation package, including: annualizing structural changes to the occupational pay schedules and the 2% pay increase awarded on January 2018, as well as providing for new market rate adjustments and potential performance pay adjustments that will be realized during FY 19 (see Table 7).

Major components of the compensation redesign package include:

- 2% Increase for Eligible Employees – 1/1/2018 (FY 18)
- Pay Increase for Employees Below New Minimum – 1/2/2018 (FY 18)
- Performance Adjustments (Merit Increases) Abolished – Effective 7/1/2018 (FY 19)
- New Market Adjustment Rule for Eligible Employees – Effective 7/15/2018 (FY 19)
- Performance Pay – Effective (FY 18) and Payout Effective (FY 19)

2% Base Pay Increase: Approximately 38,000 classified state employees were projected to receive a 2% base pay increase effective 1/1/2018. Per SCS, this general increase was granted to all eligible classified employees. However, if an employee was at the maximum of their pay range on 1/1/2018, the employee was not eligible for the 2% increase. Some employees received less than 2% if their current salary was within 2% of the maximum pay for the position for which their job was allocated. The FY 18 GAB provided \$17.9 M SGF for the portion of the plan implemented during that fiscal year (\$2.7 M SGF was for certain unclassified employees).

Pay Increase for Employees Below New Minimums - Revised Occupational Pay Schedules: The state's 6 occupational-based pay schedules were revised to reflect the relevant market on 1/2/2018. Classified employees who earned less than the new minimum within corresponding pay schedules were adjusted upward to equal the new hourly minimum. Approximately 6,200 classified employees were estimated to receive a pay increase under this provision.

Note: This likely impacted positions with historically high turnover rates (i.e. entry level child welfare specialists, correctional officers, and probation and parole officers.) SCS estimated that in FY 16 turnover and loss of productivity cost the state over \$114 M and estimated \$110 M in FY 17.

Performance Adjustments (Merit Increases) Abolished: Per SCS, effective 7/1/2018 (FY 19) the existing annual performance adjustment/merit increases will be abolished. All provisions of the performance adjustment rule shall be suspended for the period of 6/29/2017 through 6/30/2018. During this period of suspension, no employee may gain eligibility for a performance adjustment. However, an appointing authority may pay a previously earned performance adjustment that was not granted due to a layoff avoidance measure from 10/1/2014 to 10/1/2015.

New Market Adjustment Rule: Effective 7/15/2018, eligible classified employees will receive a market adjustment. A market adjustment is an increase to an employee's base pay dependent upon the employee's salary position within his/her pay range. The market adjustment ranges from 2% - 4% based on certain criteria. This is an annual adjustment for eligible employees. Classified employees not eligible are: employees who received Needs Improvement/Unsuccessful on his/her last official performance

evaluation and When Actually Employed (WAE) employees. Table 7 reflects \$54.7 M (\$22.6 M SGF) for market rate adjustments.

Performance Pay: Per SCS, state agencies may elect to reward employees who receive an overall performance rating of “exceptional” through agency reward and recognition policies beginning with Performance Year 2017-2018 with a performance rating date of 7/1/2018 (FY 19). The maximum award is a one-time 3% payment, not to exceed \$2,500, for an employee with an overall “exceptional” on the 7/1/2018 rating.

The FY 19 Executive Budget provides funding for the aforementioned changes totaling \$85.4 M (\$36.1 M SGF) (See Table 7). The budget provides for the following:

- Annualization of the 2% General Increase (\$20.9 M)
- Annualization of structural changes to the Occupational Pay Schedules (\$9.8 M)
- Market rate changes (\$54.7 M)

TABLE 7		
FY19 Executive Budget Funding for Compensation Redesign		
	SGF	Total
2% General Increase Annualized Classified	\$7,868,908	\$18,835,930
2% General Increase Annualized Unclassified	\$1,151,093	\$2,097,127
	\$9,020,001	\$20,933,057
Market Rate Classified	\$22,452,936	\$54,544,328
Market Rate Unclassified	\$136,558	\$136,558
	\$22,589,494	\$54,680,886
Structural Annualization Classified	\$4,145,292	\$8,737,158
Structural Annualization Unclassified	\$321,590	\$1,057,612
	\$4,466,882	\$9,794,770
Total	\$36,076,377	\$85,408,713

State public servants will experience compensation adjustments as a result of actions of the governor, the State Civil Service Commission and the legislature authorized in FY 17 and subsequently funded in FY 18. The above-mentioned FY 19 Executive Budget funding provides for the level of funding needed for the continued implementation of the new path forward on compensation for classified state employees. An assumed indirect impact of the compensation redesign plan is to experience lower turnover and increase in productivity. ❖